ALASKA STATE LEGISLATURE
HOUSE JUDICIARY STANDING COMMITTEE
Anchorage, Alaska
June 9, 2021
3:00 p.m.

MEMBERS PRESENT

Representative Matt Claman, Chair
Representative Liz Snyder, Vice Chair (via teleconference)
Representative Harriet Drummond
Representative Jonathan Kreiss-Tomkins (via teleconference)
Representative David Eastman (via teleconference)
Representative Christopher Kurka (via teleconference)
Representative Sarah Vance (via teleconference)

MEMBERS ABSENT

All members present

COMMITTEE CALENDAR

HOUSE JOINT RESOLUTION NO. 7
Proposing amendments to the Constitution of the State of Alaska relating to the Alaska permanent fund, appropriations from the permanent fund, and the permanent fund dividend.

- HEARD & HELD

PREVIOUS COMMITTEE ACTION

BILL: HJR 7
SHORT TITLE: CONST. AM: PERM FUND & PFDS
SPONSOR(s): RULES BY REQUEST OF THE GOVERNOR

02/18/21	(H)	READ THE FIRST TIME - REFERRALS
02/18/21	(H)	STA, JUD, FIN
04/20/21	(H)	STA AT 3:00 PM GRUENBERG 120
04/20/21	(H)	Heard & Held
04/20/21	(H)	MINUTE(STA)
05/04/21	(H)	STA AT 3:00 PM GRUENBERG 120
05/04/21	(H)	Heard & Held
05/04/21	(H)	MINUTE(STA)
05/06/21	(H)	STA AT 3:00 PM GRUENBERG 120
05/06/21	(H)	Moved CSHJR 7(STA) Out of Committee
05/06/21	(H)	MINUTE(STA)
05/10/21	(H)	STA RPT CS(STA) 4DNP 2NR 1AM

05/10/21	(H)	DNP: CLAMAN, EASTMAN, VANCE, TARR
05/10/21	(H)	NR: STORY, KREISS-TOMKINS
05/10/21	(H)	AM: KAUFMAN
05/14/21	(H)	FIRST SPECIAL SESSION BILL
05/14/21	(S)	FIRST SPECIAL SESSION BILL
05/24/21	(H)	JUD AT 1:00 PM GRUENBERG 120
05/24/21	(H)	Heard & Held
05/24/21	(H)	MINUTE(JUD)
05/26/21	(H)	JUD AT 1:00 PM GRUENBERG 120
05/26/21	(H)	Heard & Held
05/26/21	(H)	MINUTE(JUD)
06/02/21	(H)	JUD AT 1:00 PM ANCH LIO DENALI Rm
06/02/21	(H)	Heard & Held
06/02/21	(H)	MINUTE(JUD)
06/04/21	(H)	JUD AT 1:00 PM ANCH LIO DENALI Rm
06/04/21	(H)	Heard & Held
06/04/21	(H)	MINUTE(JUD)
06/09/21	(H)	JUD AT 3:00 PM ANCH LIO DENALI Rm

WITNESS REGISTER

SENATOR NATASHA VON IMHOF
Alaska State Legislature
Juneau, Alaska
POSITION STATEMENT: During the hearing on CSHJR 7(STA), provided a PowerPoint presentation, titled "Concepts pertaining to the Alaska Permanent Fund and Dividends," dated 6/9/21.

REPRESENTATIVE ADAM WOOL
Alaska State Legislature
Anchorage, Alaska
POSITION STATEMENT: During the hearing on CSHJR 7(STA), provided remarks pertaining to HB 37.

KEN ALPER, Staff
Representative Adam Wool
Alaska State Legislature
Juneau, Alaska
POSITION STATEMENT: During the hearing on CSHJR 7(STA), provided a PowerPoint presentation, titled "A Small Tax and a Moderate Dividend: Towards a Sustainable Fiscal Solution," dated 6/9/21.

MIKE BARNHILL, Deputy Commissioner
Department of Revenue
Juneau, Alaska

POSITION STATEMENT: Answered question from the committee during the hearing on CSHJR 7(STA).

ACTION NARRATIVE

3:00:42 PM

CHAIR MATT CLAMAN called the House Judiciary Standing Committee meeting to order at 3:00 p.m. Representatives Drummond, Kurka (via teleconference), Snyder (via teleconference), and Claman were present at the call to order. Representatives Vance (via teleconference), Kreiss-Tomkins (via teleconference), and Eastman (via teleconference) arrived as the meeting was in progress.

HJR 7-CONST. AM: PERM FUND & PFDS

[Contains discussion of HB 37 and SJR 18.]

3:01:17 PM

CHAIR CLAMAN announced that the only order of business would be HOUSE JOINT RESOLUTION NO. 7, Proposing amendments to the Constitution of the State of Alaska relating to the Alaska permanent fund, appropriations from the permanent fund, and the permanent fund dividend. [Before the committee was CSHJR 7(STA).]

CHAIR CLAMAN stated that today, the committee would hear invited testimony from Senator von Imhof and Representative Wool on alternative proposals related to the percent of market value (POMV) structure, revenue, the earnings reserve account (ERA), and the permanent fund dividend (PFD). He explained that Senator von Imhof's presentation relates directly to SJR 18 while Representative Wool's proposal relates directly to HB 37. He noted that the House Judiciary Standing Committee is not hearing SJR 18 or HB 37; however, because the proposal before the committee [CSHJR 7(STA)] relates to the Alaska permanent fund and dividends, it is appropriate to consider the concepts behind other proposals before the legislature.

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SENATOR NATASHA VON IMHOF, Alaska State Legislature, introduced a PowerPoint presentation, titled "Concepts pertaining to the Alaska Permanent Fund and Dividends" [hard copy included in the committee packet]. She began on slide 2, which read as follows [original punctuation provided]:

Why are we having this discussion?

- To follow statute… or not.
- Costs the state $325 million for every $500 divided check
- 80/20 rule

SENATOR VON IMHOF explained that every year, the legislature puts together a budget that pays for all of state government. Additionally, since 1982, the PFD has been included as a budget line item. She reported that currently, the dividend calculation is in statute and has been untouched for 33 years. However, in 2016, under the Bill Walker administration, the statute was ignored for the first time and the governor set an arbitrary dividend amount of $1,000 per person. This prompted a lawsuit filed by Senator Wielechowski against the State of Alaska [Wielechowski v. State], which questioned whether the 1976 amendment to the Alaska Constitution exempted the legislature's use of the permanent fund income from the constitution's anti-dedication clause. On August 25, 2017, the [Alaska] Supreme Court ruled that the legislature's use of the permanent fund income is subject to normal appropriation and veto budgetary process, which means that the legislature can follow the statute or not. Senator von Imhof expounded that as the appropriating body, the legislature can choose to fund, not fund, or short fund, any particular program, department, et cetera. She highlighted that it costs the state approximately $325 million to pay a dividend of $500 to every qualified Alaskan. She questioned whether the "better investment" is $325 million in the form of a $500 check to every citizen or a $325 million investment in projects, which would: create year-round jobs to support families; build roads that connect communities and provide access to resources; and repair bridges, schools, and other infrastructure. She addressed the 80/20 rule, noting that the Pareto principle states that for many outcomes, roughly 80 percent of consequences come from 20 percent of the causes.

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SENATOR VON IMHOF continued discussing the 80/20 rule on slide 3, which includes a graph, titled "Senate Finance CS3 General Funds With Governors [sic] 50/50 PFD." She opined that 80 percent of [the legislature's] time and energy is spent on one budget item that accounts for 24 percent of the budget. She stated her belief that it paralyzes the legislature from doing anything else and will eventually financially cripple the state; furthermore, it is creating deep philosophical fissures among the legislature and citizens. She articulated that the dividend is part of Alaska's culture and history, adding that many people depend on it. Nonetheless, she posited that the dividend calculation must be solved into something that is affordable and sustainable over time to allow the legislature to take steps forward to rebuild and reimagine [the state's] future.

SENATOR VON IMHOF proceeded to slide 4, which read as follows [original punctuation provided]:

Decision Points:

- Statute versus Constitution
- Taxes: Do we institute personal taxes on every citizen in order to pay a dividend?

SENATOR VON IMHOF addressed the first decision point: putting the dividend calculation in statute versus the constitution. She reiterated that statutes dealing with appropriations can be overwritten through the budgetary process. She conveyed that on principle, she is against putting any fiscal or economic policy into the constitution because it would financially devastate the state in the event of an economic downturn. However, she said she agrees with the governor that the issue must be solved to stabilize and protect the state's financial health. She added that to reach a resolution for this unique problem, she is proposing a unique solution that puts the dividend into the constitution by creating a dedicated fund. She addressed the second decision point: instituting personal taxes on every citizen to pay a dividend. She opined that it does not make sense to tax the wages of one person only to deposit his/her money into the personal checking account of a neighbor.

SENATOR VON IMHOF advanced to slide 5, which lists: revenue at $4,731,600; agency at $3,857,820; debt at $145,268; retirement at $341,985; fund capitalization at $165,873; capital at $268,28; with a total expenditure of $4,779,233. The resulting surplus/deficit is shown as a deficit of $47,633. She noted that currently, the state has roughly enough revenue to pay for its expenditures.

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SENATOR VON IMHOF turned to slide 6, which shows a side-by-side comparison of the Alaska Resource Ownership Revenue Account (ARORA) plan and the governor's 50/50 plan. She pointed out that under the governor's plan, half of the POMV, or roughly $1.5 billion, would be taken from revenue, leaving a deficit of $1.6 billion [bottom figure highlighted in yellow]. She emphasized that because of Alaska's small population, of which less than half is currently employed, it would take both an income tax and a "hefty" sales tax to close the gap for the governor's proposal. She reiterated that everyone would be paying taxes to receive a dividend.

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SENATOR VON IMHOF continued to slide 7, which read as follows [original punctuation provided]:

> Decision Points (continued):
>
> Reasons for a larger dividend:
>
> • Prioritize the Dividend over everything else: Cut the budget to pay the dividend
> • Downsize Government: Use the dividend to put downward pressure on the budget (but lack of revenue does that)
> • Wealth Ownership State: It’s our oil. It’s our wealth. It’s our asset. (What about the liabilities?)

SENATOR VON IMHOF reported that currently, government costs roughly $4.5 billion. Additionally, the current statutory dividend would cost the government roughly $2.1 billion. She expressed her belief that it would be difficult to cut government services in half. She acknowledged that there are inefficiencies in the bureaucracy; however, she likened government efficiencies to fat in a piece of meat, suggesting that "it's marble throughout the entire enterprise - it takes time and thought to decrease the government." Furthermore, she said the lack of revenue puts downward pressure on the budget. She addressed the notion of the wealth ownership state, adding that to some degree, she agrees that "it's our oil, it's our wealth, it's our assets." However, she pointed out that there's still liabilities and the cost of the roads, schools, and public safety. She asked, "Who pays for that?"

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SENATOR VON IMHOF proceeded to slide 8, which read as follows [original punctuation provided]:

In summary, the Decision Points are:

- Statute versus Constitution
- The perceived fairness of the calculation
- The sustainability of the calculation - can Alaska afford it over time?
- The size of the dividend

SENATOR VON IMHOF noted that she considered these decision points when creating her proposal.

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SENATOR VON IMHOF outlined her proposal [the ARORA plan] on slide 9, which read as follows [original punctuation provided]:

ALASKA RESOURCE OWNERSHIP REVENUE ACCOUNT (ARORA)

- Transfer $6.7 billion from the current traditional Permanent Fund to create an ARORA dividend fund
- Put the ARORA fund into the Constitution, so protected
- 5% POMV of the ARORA fund to pay annual dividends
- 12.5% of Royalties will be deposited into the fund each year (50/50 split with the traditional deposit into the Permanent Fund)
- Dividend will grow over time

SENATOR VON IMHOF stated that under her proposal, a new constitutionally protected, solely dedicated dividend fund would be created. The fund would pay out 5 percent of its earnings each year solely for dividends, which would ensure that [future generations] continue to receive dividends well into the future. She noted that the $6.7 billion figure is based on the unpaid permanent fund dividend from 2016-2023 when this account could theoretically be formed. She emphasized that this unique fund would be entirely separate from the "traditional" Alaska Permanent Fund, which pays for the government. Furthermore, since the ARORA account would be constitutionalized, dividends would be guaranteed. She added that the dividend would be untouchable and protected. At first, she said, the ARORA account would have a 5 percent POMV draw, which would be around $335 million per year for a dividend of approximately $500 per person. This would grow over time, she noted.

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SENATOR VON IMHOF progressed to slide 10, which shows the value of the Alaska Permanent Fund as of 4/30/21 as: ERA $18.3 billion and Principal $59.5 billion. Slide 10 also shows ARORA at $6.7 billion. She explained that under her proposal, $6.7 billion would be taken from the ERA to create the ARORA fund.

SENATOR VON IMHOF continued to slide 11, which read as follows [original punctuation provided]:

Traditional Endowment Remains

- Traditional endowment remains
- Consolidate Permanent Fund Earnings Reserve Account (ERA) into the Principal
- Put 5% POMV into the Constitution
- 12.5% of Royalties will be deposited into the fund

SENATOR VON IMHOF noted that similar to the governor's proposal, she supports turning the permanent fund into a true endowment by folding the ERA into the principal and constitutionalizing the 5 percent POMV, which would protect the fund in the long term. She stated that 5 percent is the "tried and true" number that has been tested over time by endowments and foundations around the world. She said it's the number that maintains the health and growth of funds.

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SENATOR VON IMHOF proceeded to slide 12, which compares the traditional Alaska permanent fund, with an endowment of $71.1 billion, and ARORA, with $6.7 billion, both of which have the following: endowment; 5 percent POMV draw; constitution; 12.5 percent of royalties; and fund government. In contrast, the traditional permanent fund would fund the government while the ARORA fund would fund the dividend.

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SENATOR VON IMHOF advanced to slide 13, which is a graph from the Legislative Finance Division (LFD) depicting the unrestricted general fund (UGF) revenue/budget in the millions between fiscal year 2021 (FY 21) and FY 30. The key to the graph shows: Revenue in blue; ERA Draw in red; Permanent Fund Plan in green; ARORA Fund Draw in lavender; CBR/SBR Draw in orange; the budget shown as a black dotted line; and "Budget Less Dividends" shown as a black solid line. The amounts range from zero to $8,000. She explained that both the ARORA account and the permanent fund are expected to grow at 6.2 percent each year, and the operating budget is assumed to grow by inflation of about 2 percent each year. She pointed out that budgets tend to grow more than inflation, suggesting that there will always be downward pressure on the budget. She noted this model was stress tested by LFD and proved to be sustainable during volatile market cycles while continuing to grow over time.

SENATOR VON IMHOF turned to slide 14, which displays the same graph from slide 13 with the addition of the governor's 50/50 plan. She explained that each of the red bars represent over $1 billion in deficits each year, which would require high taxes on citizens or an extra draw on the ERA. She stated her belief that overdrawing the ERA each year is bad policy because it would eventually liquidate the permanent fund.

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SENATOR VON IMHOF progressed to slide 15, which read as follows [original punctuation provided]:

What does this solve?

1. Constitution: Can't override
2. No new individual taxes to pay a dividend
3. Vote of the People to create the ARORA account
4. Simple to understand
5. Dividend no longer competes with other spending
6. Share wealth ownership 50/50 with government through royalty split
7. Downward pressure on government spending

SENATOR VON IMHOF explained that carving out a portion of the current traditional permanent fund and creating a separate dedicated dividend fund offers a compromise solution that combines several perspectives into a single plan.

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SENATOR VON IMHOF continued to slide 16, which read as follows [original punctuation provided]:

In summary:

- Completely hands off solution
- Legislature can focus on other things
- Improves the efficiency and productivity of the legislature
- No new individual taxes required to pay a dividend under the ARORA plan
- Stabilizes the financial future of our state

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CHAIR CLAMAN invited questions from the committee.

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REPRESENTATIVE KURKA suggested the [ARORA plan] would be "insulting" to Alaskans who have called for a return to full [statutory] dividend payments. He asked for clarification as to why the plan would be beneficial.

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SENATOR VON IMHOF explained that she took the approach of trying and find a balance between providing the highest dividend without instituting personal taxes. She said she considered different analyses on state sales and income taxes by the Department of Revenue (DOR) and the Tax Foundation from Washington, DC, both of which indicated that significant taxes would be required in the form of an income and a sales tax in order to pay for a 50/50 plan. Additionally, according to the Institute of Social and Economic Research (ISER), there is an opportunity cost to taking money from an individual or a small business to pay for state taxes. She offered her belief that taking money from individuals to pay a dividend defeats the purpose. She opined that she is coming from an economic angle whereas she offered her understanding that Representative Kurka is coming from a philosophical or political point of view.

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REPRESENTATIVE SNYDER stated her belief that reducing the dividend is essentially asking lower income Alaskans to disproportionately shoulder the burden of closing the state's budget gaps. She pointed out that there is value in maintaining a larger fund because it provides opportunity and flexibility for investments that could yield larger returns. She asked if projections have indicated that there would be "opportunity costs" to transferring $6.7 billion into the new dedicated fund.

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SENATOR VON IMHOF answered that [the transfer of $6.7 billion] would result in "little to no" problem because under this proposal, the Alaska Permanent Fund Corporation (APFC) would manage both the ARORA fund and the traditional permanent fund. She speculated that based on previous testimony from Angela Rodell, APFC would still have access to the same investments and would continue to have the same total amount of $80 billion to invest however it sees fit. She indicated that some would be invested from the ARORA account and some from the permanent fund.

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REPRESENTATIVE SNYDER directed attention to Section 3 and asked if anything would prevent future legislatures from augmenting the dividend from [the permanent fund] even if the ARORA account were in existence, which would result in the same cycle that is occurring now.

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SENATOR VON IMHOF said the initial dividend calculation would be taken from the ARORA account. She considered a scenario in which the state was making a lot of money from oil production and after funding government, there was a surplus of $1 billion. Under that scenario, she explained, part of the surplus could go towards a secondary or augmented dividend, deferred maintenance, a larger capital budget, et cetera. She further noted that the legislature could add money to the ARORA account at any time.

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REPRESENTATIVE SNYDER inquired about the differences between the ARORA plan and the legislation sponsored by Representative Merrick [HB 202], which [proposes funding the dividend with 30 percent of all royalties].

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SENATOR VON IMHOF said she is not familiar with that proposal [by Representative Merrick]. Nonetheless, she said the Alaska Constitution specifies that 25 percent of the royalties are deposited into the fund each year. She referenced a second provision that stipulates another amount. She added that she felt comfortable addressing only the 25 percent because it is more "clear cut."

CHAIR CLAMAN offered his understanding that there is a statute, which is sometimes followed and other times not, wherein 50 percent of the royalties "are put into the dividend." He added that according to the Legislative Audit Division, there are competing views on that additional 25 percent.

3:31:51 PM

REPRESENTATIVE VANCE asked whether the extra 25 percent would go into the UGF, as it is not addressed in the current proposal.

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SENATOR VON IMHOF said she is not fully cognizant of which wells from what location at what oil rate go to the general fund versus the permanent fund. Regardless, she said "across the total, 25 percent goes into the permanent fund." She added that she is open to discussion. She reiterated that her proposal solely addresses the base 25 percent, which would be split between the two funds [the ARORA fund and the permanent fund].

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REPRESENTATIVE VANCE pointed out that one of the purposes of protecting the permanent fund is to turn an unsustainable resource into a sustainable one. She expressed interest in exploring her previous question further. She asked if under the ARORA plan, the dividend amount would be formula driven.

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SENATOR VON IMHOF reiterated that the $6.7 figure is the estimated amount of "unpaid dividends" from 2016 anticipated through 2023. Further, it is the same number that in essence, provides the maximum amount, based on economic affordability, that could be taken from the permanent fund without instituting new taxes. She said she approached this proposal as an economic and mathematical exercise, adding that she attempted to find the largest affordable dividend that wouldn't require instituting new taxes. She explained that applying a 5 percent POMV would allow for approximately $330-$350 million per year depending on the growth, which would apportion a $500 dividend.

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REPRESENTATIVE VANCE asked why the ARORA fund would need a 5 percent POMV when the traditional statutory formula has worked these past 30-plus years without hurting the principle. She surmised that if the ARORA fund were specifically for the dividend, the traditional calculation would still work without overdrawing the fund.

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SENATOR VON IMHOF shared her understanding that the traditional calculation is 21 percent of statutory income, which is realized income. She added that realized income indicates that you must sell something to get [the income]. She characterized the history of the dividend as volatile, pointing out that the POMV structure provides a more predictable dividend.

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REPRESENTATIVE VANCE remarked:

> One of the reasons that I've heard people oppose a predictable dividend is so that it is not looked at as a welfare check. By having the volatility, it keeps people closer to their resource and knowing that it's going to fluctuate based upon the market and investments every year, and it keeps people engaged that we are a resource state.

REPRESENTATIVE VANCE conveyed that she is not a proponent of a predictable dividend "because ... people should be directly engaged." She questioned how the CBR would grow under the ARORA plan if [the state] is operating under limited revenue.

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SENATOR VON IMHOF answered, "By not taking any money from it to pay a dividend each year." She invited Representative Vance to engage with LFD for further explanation.

REPRESENTATIVE VANCE sought to clarify whether the dividend would be calculated by formula or "by number" under Senator von Imhof's proposal.

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REPRESENTATIVE KURKA asked whether the ARORA plan would "hold harmless" those under government assistance. He noted that when individuals on government assistance receive funds, it can sometimes affect benefits.

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SENATOR VON IMHOF responded that she had no intention of changing that aspect of current statute and that it would remain as is under her proposal.

REPRESENTATIVE KURKA characterized Senator von Imhof as expressing frustration during her presentation at the legislature's 80 percent focus [on the dividend] and how much it should be. He asked when that 80 percent focus started.

SENATOR VON IMHOF answered that it was likely in 2015/2016 when the price of oil dropped down to about $29 and the state's revenue fell. She explained that she has been working on this for about five years now and that the same conversation has been happening for the duration of that time.

REPRESENTATIVE KURKA asked whether she would say that the 80 percent focus initially began when the governor, and later the legislature, decided to "stop following the law" on the formula for the dividend.

SENATOR VON IMHOF replied that several factors occurred around that time [2015/2016] when the state had a drop in revenue, the expenses were high, and there was no way to pay for it apart from the CBR. She shared her understanding that individuals who have a "forward-thinking" and global perspective of the state could see "the writing on the wall" that the CBR would soon be liquidated and, eventually, the ERA was going to meet that same fate. She speculated that she and Representative Kurka have different philosophical views on how the state should conduct itself. She stated that she is proposing a solution to solve this problem and acknowledged that it will not be liked by some, but that there are others that will not want to pay taxes in order to pay a dividend. She explained that she is trying to represent all viewpoints by not eliminating the dividend entirely, but by providing something that will grow overtime while not instituting "debilitating" taxes on people.

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REPRESENTATIVE KURKA inquired about competing priorities and questioned whether Senator von Imhof prioritizes government spending on government programs.

SENATOR VON IMHOF responded that she prioritizes the health and solvency of the state. She shared her understanding of her job, which she said is to look at all the appropriations in the state and come up with the fairest and most "blended solution" as possible that provides stability and sustainability for all Alaskans. She added that she does not think of a smaller dividend as a tax but sees it as "less free money."

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REPRESENTATIVE DRUMMOND asked why constitutionalizing the 5 percent POMV is an exception to Senator von Imhof's expressed intent to refrain from constitutionalizing formulas.

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SENATOR VON IMHOF responded that she doesn't view that as a formula. She explained that when there is a per-user formula, she sees it as a prescribed formula that "locks us in" because it mandates a dollar value and not a rate. She characterized her proposal as different because it addresses the maximum that could be drawn, which she sees as similar to the Alaska Mental Health Trust.

REPRESENTATIVE DRUMMOND speculated that it is due to the Senator's earlier statement that all the sovereign wealth funds have landed on that percentage. She clarified that she is trying to determine whether that changes over time depending on the market situation. She stated that she thinks 5 percent should be the maximum, though it should ideally be less.

SENATOR VON IMHOF offered clarification that 5 percent would be the maximum under her proposal, and that the majority of other funds are also implementing a 5 percent maximum.

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REPRESENTATIVE DRUMMOND opined that Senator von Imhof went in the right direction. She noted that the commissioner of DOR wants to draw an "exceptionally large" amount of $3 billion and was basing it on the fact that Harvard University was doing just that. Representative Drummond pointed out that Harvard University's draw does not provide a majority of the operating funds to the university the way Alaska's permanent fund does. She opined that [the 5 percent maximum] was a rational number.

3:49:47 PM

CHAIR CLAMAN noted that currently, under the Alaska Constitution, 25 percent of royalties go to the permanent fund. He proposed to Senator von Imhof the idea of keeping the 25 percent in the permanent fund and, if the ARORA fund is created, taking, for example, 10 percent or 12 percent on top of the 25 percent that would go into the ARORA fund. He shared his understanding that Senator von Imhof's proposal would not reduce the royalties in the permanent fund, but instead would dedicate some additional royalties into the ARORA fund. He asked for the reasoning behind this.

SENATOR VON IMHOF said she liked the original 25 percent and splitting it is because it's "in the spirit" of the governor's proposed 50/50 split. She explained that individuals have said that it would be ideal to include the dividend as part of the royalties and, given in the resources in the state, "sharing the wealth" would be desirable. She explained that she has been trying to find a blend that meets these various needs but is open to modeling other ideas.

CHAIR CLAMAN asked for verification that the numbers are from LFD and are not the numbers used by the governor, which had higher permanent fund earnings and lower inflation and lower "government numbers."

SENATOR VON IMHOF responded yes, she has been using the numbers from LFD which have been used for years and have been stress-tested against volatile markets.

CHAIR CLAMAN asked whether Senator von Imhof's analysis is more consistent with LFD's perspectives on the future than with the recent numbers seen from the governor.

SENATOR VON IMHOF answered, "(Indisc. -- overlapping voices) the [Legislative] Finance numbers."

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CHAIR CLAMAN thanked Senator von Imhof for her time and welcomed Representative Wool.

3:52:39 PM

REPRESENTATIVE ADAM WOOL, Alaska State Legislature, provided an overview of his PFD proposal, embodied in HB 37. He began by expressing that it is his opinion and the opinion of many others that the current PFD formula is not sustainable, which he characterized as the reason why the state has not paid the statutory PFD in "many, many, years." He noted that the funding of the PFD has been restructured largely through the passage of Senate Bill 26 [during the Thirtieth Alaska State Legislature]; however, Senate Bill 26 didn't change the formula for the PFD, which is not propitiate with the rest of the state's government. Currently, he noted, the state's revenue is balanced through oil and through the POMV draw. He said that the state can pay for the majority of state services [with this revenue]; however, there isn't much money left over to finance a PFD in the $1,000-$1,600 range, to which many people have become accustomed, and certainly not in the $2,000-$3,000 range, as the governor has proposed. He explained that anything over a PFD of $500 would require additional revenue or budget cuts. If oil prices decline, then there's an additional strain on the budget, he said, or if the capital budget and deferred maintenance become (indisc.), then more revenue is needed.

REPRESENTATIVE WOOL acknowledged that the budget is balanced right now but emphasized there is a small capital budget and there have been other factors: neglect of deferred maintenance, certain catastrophes like wildfires and earthquakes, and climbing Medicaid expenses and medical costs. He continued that the first PFD was $1,000, but that it represented a combination of the first three years. He added that the PFD was not originally created to be a supplemental income or to help individuals in "low-cash economies," but was simply a dividend from oil earnings. He acknowledged that it has become a resource for lower-income individuals as well as low-cash economies; many of these communities have more cash needs than they used to when the PFD was first conceptualized.

3:57:42 PM

REPRESENTATIVE WOOL stated that his proposed bill, HB 37, includes a proposed PFD formula that elicits returns of about $1,000 per person. He explained that this formula includes two components: one directly from the oil and gas resource revenue, which is 30 percent of royalty revenue and would be about $500, and the other from 10 percent of the POMV revenue, which would also equal about $500. He said that this would create both a steady and consistent cash stream from the POMV and a more variable cash stream from the oil revenue. He explained that this would ensure that if and when oil prices decline sharply, there would still be a PFD because of the POMV component. If oil increases, the royalties will go up and increase PFD amounts. It would more directly tie the PFD to the resource from which it is sourced, he said. He continued that [HB 37] is "budget neutral," which means that there is a revenue component to the bill in the form of a 2.5 percent income tax. He acknowledged concerns about implementing an income tax simply to pay out a PFD but said this would not be the purpose of the income tax. The tax would be to raise revenue for the budget, he explained, as any PFD puts stress on the state's budget. He said that the budget is currently paid; however, paying out a PFD would come out of the budget and would result in a hole in the budget.

4:00:22 PM

REPRESENTATIVE WOOL continued by recognizing that although oil prices have recently spiked, they were low enough "not that long ago" that the state would've had a deficit, even with a zero PFD. He summarized that the state needs more revenue, which [HB 37] would accomplish through its revised PFD formula. He noted that the 2.5 percent income tax is low enough that most PFD recipients would still receive a "net-positive" or "net-neutral" check, and the PFD could be used to pay the tax. It would also exempt individuals making $12,500 or less, addressing the need for a full PFD for many low-income people.

4:02:26 PM

KEN ALPER, Staff, Representative Adam Wool, Alaska State Legislature, introduced a PowerPoint presentation, titled "A Small Tax and a Moderate Dividend: Towards a Sustainable Fiscal Solution." He began on slide 3, "What is Needed," which read as follows [original punctuation provided]:

> Depending on oil prices, Permanent Fund earnings, and future budget sizes, the next couple budgets are likely to be approximately balanced with a relatively small (~$500) Permanent Fund Dividend.
>
> Unless massive budget cuts can be achieved, two major changes must be made to balance Alaska’s budget for the foreseeable future and form the centerpiece of a sustainable fiscal plan:

1. Restructuring the annual dividend formula to set future dividends to about $1,000 per Alaskan
2. A combination of new revenues (most likely a broad-based tax on individuals) raising approximately $500 million If higher dividends are desired, revenues will similarly need to be higher. …but first a little background

4:03:18 PM

MR. ALPER continued to slide 4, titled "Ways and Means Committee Process Told the Story," which read as follows [original punctuation provided]:

Revenue declines, beginning in 2014
• Budget cuts and major draw-down of savings
• Introduction of POMV as a central revenue feature • Ongoing structural deficits
• Lack of resolution of the Dividend question
• Alaskans pay the lowest state and local taxes among the 50 states Once a consensus is reached that we need additional revenue, new questions emerge:
• Pros and Cons of Income Tax vs. Sales Tax vs. Other
• How much revenue to raise / how large should the dividend be?
• Structural and technical details of the bill

4:04:30 PM

MR. ALPER advanced to slide 5, headlined "Last 10 years: revenue declines, budget cuts, and (beginning in FY 19), use of Permanent Fund earnings," which depicted a chart tracking various aspects of the permanent fund. He explained that the bars in the foreground of the chart represent the state's budget. He read through the chart's key, which included measures such as Agency Operations, Permanent Fund Dividends, PFD from ERA, and the Capital Budget. He noted that the $1 billion dollar figure represents roughly a $1,600 payout of the PFD.

4:07:29 PM

MR. ALPER proceeded to slide 6, headlined "Most of the savings that were drawn down 2014-2021 were set aside during the high oil price years 2007-2013," which depicted a graph, titled "Alaska Savings Balances in $Billions (Other Than Permanent Fund)." He explained that he likes this graph because it shows both the increases and decreases of the PFD over the years. He drew attention to the portion of the graph that reflected a time during which the legislature would forward-fund education, meaning money would be set aside for two years in the future, and, therefore, it was ensured that there would be money available for education.

4:08:58 PM

MR. ALPER turned to slide 7, titled "Permanent Fund Corporation's Forecast," which included a graph of UGF revenues since 1969. He directed particular attention to the portion of the graph that tracked the POMV.

4:09:45 PM

MR. ALPER progressed to slide 8, headlined "Even with higher oil revenue in the Spring forecast, the 10-year plan shows large ongoing shortfalls," which depicted a chart of 10-year fiscal projections for unrestricted revenues, unrestricted general fund expenditures, and the PFD. He emphasized that it has been an unusual year, and the graph on the slide represents the second version of fiscal projections, which were done in March 2021 after the spring revenue forecast.

CHAIR CLAMAN offered clarification that all 10-year plans have been proposed by the executive branch and explained that the slide depicts LFD's analysis of the governor's 10-year plan. He shared his understanding that LFD isn't proposing a 10-year plan.

4:10:35 PM

MR. ALPER explained that the slide represents an OMB document.

CHAIR CLAMAN pointed out that all 10-year plans have been proposed by the governor, and that there have been three separate proposals within the last seven months.

4:10:55 PM

MR. ALPER continued to explain slide 8, noting that the revenue forecast was updated in March 2021 to include higher oil prices, which was incorporated into the proposal. He drew the committee's attention to the highlighted yellow line on the slide, which represents other revenue sources under unrestricted revenues on the chart. He also noted the portion of the slide circled in red [the "Permanent Fund POMV GF draw" of $1,547.1 and "Permanent Fund POMV for PFD (50 percent)" of $1,647.1 in FY 27], which assumes that the POMV would be drawn by adhering to the proposed 50/50 split. He explained that the POMV draw would be the sum total of the lines, "Permanent Fund POMV GF draw" and "Permanent Fund POMV for PFD (50 percent)" in FY 27. He explained that due to the five-year formula, the changes will be "worked through the system" by FY 27. He said that the sum total of the two circled numbers would be about $3.2 billion.

4:12:35 PM

MR. ALPER advanced to slide 9, headlined "The revised 10-year plan introduced this special session includes larger future POMV draws based on recent market gains," which includes a revised version of the chart on slide 8. He directed attention to the revised numbers circled in red: the "Permanent Fund POMV GF draw" and the "50 [percent] POMV for PFD ($Millions)" - both now showed $1,970.5 for FY 27. He said that the sum total of the circled numbers on this slide would come to about $3.95 billion. He shared his understanding that the administration has found about $600 million per year in additional POMV draw. He continued that this is because the recent market changes are being considered and it is assumed that these changes will be held in the future. He stated that the proposal relies on the idea that the permanent fund would be pushed to $80 billion in future annual draws.

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MR. ALPER proceeded to slide 10, titled "A 'Perfect Storm' is required for all these forecasts to work," which read as follows [original punctuation provided]:

1. No major market correction in the next 9 years
2. Oil prices steadily increasing towards $71 / bbl in 2030
3. Three more years of likely unobtainable operating budget cuts and ongoing minimal capital budgets, with below-inflation growth thereafter

MR. ALPER noted the chart on the slide, which came from Alexei Painter of LFD, showing the "Governor Minus LFD Baseline" fiscal projections. He noted that this chart from the administration includes projections that are very different from those from LFD.

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MR. ALPER turned to slide 11, "50/50 Dividend Without Revenue Crashes the System," which depicts an LFD analysis from the spring of 2021, prior to the release of the revised 10-year plan. He explained that it shows that a 50/50 plan without new revenue would effectively "crash the system."

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MR. ALPER progressed to slide 12, headlined "Alaska's current revenue structure hasn't kept pace with our changing economy," which included a graph that shows that while the state's economy is diversifying, the state's revenue streams are not. It shows the rise and fall comparisons from 1975 through 2015 of: unrestricted petroleum revenue; unrestricted general fund revenue; GDP - oil and gas; and GDP - all other private industries. He noted that there are a number of industries that are not taxed and not contributing to the operations of the state government.

4:17:03 PM

MR. ALPER continued to slide 13, titled "Alaskans pay less state and local tax than any other state," which read as follows [original punctuation provided]:

> Alaska is 5.8% in combined state and local taxes Next lowest are Wyoming and Tennessee at 7.0%
>
> If the PFD ($1,606 in 2019) was included as a "negative tax", Alaska's effective state and local tax rate would be about 1.7%

MR. ALPER referred to the map of the United States also included on the slide, entitled "State-Local Tax Burdens by State, Calendar Year 2019," and explained that Alaska ranks number 50 at a 5.8 percent tax burden.

4:18:55 PM

MR. ALPER advanced to slide 14, titled "Adding a moderate tax would not change that much," which depicted a chart showing the per-capita state taxation for all 50 states. He noted that the black bar represents $700 million in new and increased taxes [based on a House income tax bill from 2017], and said that even with that tax added, Alaska would still be the second lowest taxed state in the country.

4:20:14 PM

MR. ALPER proceeded to slide 15, titled "Revenue Options: Sales vs. Income," which showed a pie chart comparing Alaskans who would pay less under income tax, representing 81.5 percent of the pie, to Alaskans who would pay less under sales tax, representing 18.5 percent of the pie.

4:22:03 PM

REPRESENTATIVE KURKA expressed concern about the tax structure when looking at adjusted gross income (AGI). He stated that many Alaskans will invest in real estate, for example, and have assets that they would then liquidate when they are older to pay for increased living expenses, such as healthcare. He said there is not a more progressive look at capital gains on the federal level, and this tax would penalize them. He stated his concern that the structure of this proposal is like an inflation tax or a tax on savings. He asked how this would deal with capital gains for people who are liquidating assets.

4:23:14 PM

MR. ALPER said the committee had not dealt with the specifics of the tax yet. He said he would push back against the word "penalize" because the federal tax code gives a lower tax rate for capital gains, which he referred to as a policy choice. He said this bill would not tax all income at the same 2.5 percent rate. He noted it is also a flat rate, as opposed to a progressive rate that steps up as people start earning more. He said there are other provisions that tend to shelter capital gains, which may or may not "carry forward" into the bill. He stated that those are the kinds of technical details that need to be discussed if Alaska is going to take on a statewide tax. He expressed his hope that these the type of issues would be addressed later this fall during a special session called by the governor.

4:25:13 PM

REPRESENTATIVE KURKA opined that so far, the conversation seems like a continuance of the previous presenter in terms of a paradigm shift that's being asked for. He stated that instead of tying PFDs to a resource that Alaskans own in common, the suggestion is to tax [Alaska citizens] to pay for the dividend. He characterized the proposal as communist and asked whether the presenters agree.

4:26:12 PM

REPRESENTATIVE WOOL declined to answer the communism question. He replied that [Alaska] doesn't need a tax to pay a PFD, as it has been done for quite a while. He opined that the "paradigm shift" came after Senate Bill 26. He said Alaska had the permanent fund, which was paying a PFD solely, and oil revenue, which was funding the state budget solely for many years. He explained that with the [oil] price crash in 2013 and 2014, [the state] didn't have the revenue to fund the budget. The first thing the state did, he said, was drain its savings and, once the savings were gone, the state started cutting the PFD in 2016. He continued that [the legislature] realized that although a tax isn't needed to pay [the PFD], if paid out in full, the budget would take a major hit. He discussed figures and said that when talking about a PFD of $2 billion, a budget of $4 billion, and oil revenue of $1-$2 billion, [the legislature] needs to start questioning what to prioritize. He asked whether the legislature is going to pay for education, health and social services, public safety, or corrections, or if the legislature is going to pay out a check. He continued by noting that the tax question has been asked independently of the PFD, summarizing that the budget is under strain and [Alaska] needs new revenue. He pointed out that some people want to tax oil higher and believe that alone can solve the problem, but others do not agree. He shared his understanding that those numbers don't necessarily pan out, especially with [oil's] low prices. He concluded that taxes are an issue, and the PFD is an issue; they aren't necessarily linked, but they are part of the same conversation.

4:29:04 PM

MR. ALPER addressed the communism comment, noting that taxing the citizenry to pay for government has been a feature of every form of government since the beginning of civilization. He stated his belief that it is a normal thing that humans do when they work collectively. He opined that [the legislature] must decide to what extent the annual wealth generated from [the permanent fund] should be used to help [Alaskans] in common through things like schools and healthcare or used to help [Alaskans] as individuals through a PFD check.

CHAIR CLAMAN interjected to ask Mr. Alper to proceed to the explanation of Representative Wool's proposal rather than continue the philosophical discussion.

4:30:19 PM

MR. ALPER progressed to slide 17, noting that the new [dividend] formula is from CSHB 37(W&M), noting that the bill is now in the House State Affairs Committee. He stated that the new formula is 10 percent from the POMV draw plus 30 percent of current year oil and gas royalties. As seen in the blue box on the slide, the calculation is for FY 23 based on forecasted data with a POMV under $3.2 billion, he explained, which is $319 million towards the dividend at 10 percent. The sum total of the royalty includes the portion that is already going to the permanent fund corpus, which is slightly less than $1.2 billion. He said 30 percent of that is $358 million, and when added together, it is $677 million, which results in a dividend of just under $1,000. If the projections are accurate, he added, that dividend would grow to roughly $1200-$1,300 in the next few years.

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MR. ALPER continued to slide 18, informing the committee members that part of the dividend is tied to [the permanent fund's] accumulated wealth, and that first, $500 would always be tied to the fund itself. He said the second $500 would be more volatile, explaining that if oil prices are higher, then the dividend would be higher and - more importantly - [the state] would be able to afford it because of the additional royalty revenue occurring at the same time. He went on to say that the bill has several secondary changes that would impact the permanent fund. He said there is a 25 percent constitutional deposit of permanent fund royalties into the corpus and on certain newer leases signed after 1979, which is about one quarter of current production. He said this bill repeals that section, so the constitutional 25 percent would remain in place. He said that in practical terms, in the current year, $57 million would stay in the UGF for appropriation and decrease the deposit into the permanent fund corpus.

MR ALPER stated that the other change is an unrelated issue concerning the "Amerada Hess" settlement. He characterized it as an oddity within the permanent fund where there is about $420 million that resulted from a specific settlement nearly 30 years ago. He explained that there was a royalty lawsuit from which

Amerada Hess was the first, alphabetically, of about twenty oil companies within the state that challenged their royalty payments. As this was working its way through the courts, there was fear that it might go to a jury trial and because anything that favored the state might lead to more royalty payments, which would lead to a growing permanent fund that would lead to larger dividends, the entire population of Alaska was a potentially tainted jury pool, he explained. A statute was passed to set any money resulting from this case aside, and it would not be used in the PFD calculations in future years. That remains in statute, he said. He added that the $420 million is not part of the POMV and it is not part of the dividend calculation. He conveyed that HB 37 would remove that section because it is obsolete, and the tainted jury pool from 1990 is no longer an issue.

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MR. ALPER advanced to slide 19, which summarized the income tax. He stated that it is a flat rate tax of 2.5 percent of AGI, explaining that 41 states have a broad-based income tax. He stated that [the tax] includes everything: wages, self-employment, business income, S-Corporations, capital gains, employment, retirement, and so forth. He said the "adjusted" part of "adjusted gross-income" is tied to the standard adjustments in the federal tax code and lists retirement contributions, student loan interest, alimony, and a handful of other items. Itemized deductions in the federal tax code, he said, are not part of this, and therefore, would be subject to the tax, such as (indisc.) interest, charitable deductions, and property taxes, for example. However, he noted that in lieu of that, this bill offers a standard deduction, which is tied to the federal code. A single person's deduction would be $12,550, the deduction for head of household, single parent, or single adult with dependents would $18,800, and joint would be $25,100, he clarified. That number would be scaled and adjusted automatically when the federal government adjusted its numbers, he offered. He noted that the PFD is considered non-taxable income. He said that means that a family of four who received dividends would not be taxed on roughly the first $29,000 of their income, and the tax would only apply to the amount above that $29,000. He argued that this largely eliminates any tax burden on the lowest income Alaskans; further, the dividend would permanently go to those who need it the most.

4:37:07 PM

MR. ALPER proceeded to slide 20 and directed attention towards the graphic, which came from the Institution for Taxation and Economic Policy (ITEP), the consultant hired by the Legislative Budget and Audit Committee last fall. He said it looked at a variety of different tax plans. This graphic is option two, which represents the original version of Representative Wool's bill as it was introduced at the beginning of the session, he said. It was the same 2.5 percent, but the standard deductions were different, he explained, noting that the standard deductions were changed by an amendment in the House Special Committee on Ways and Means. He said that bill had a $580 million fiscal note, which lined up very closely to ITEP's analysis. He directed the committee to look at the graphic, which shows the effective tax rate on different income levels The bar on the left is the lowest 20 percent; it is a very small 0.3 percent that the tax burden increases until reaching the top level of earners, where it would be a flat rate 1.9 percent, assuming there will always be some non-taxed income. Based on some narrative information within the ITEP study and his and Representative Wool's own work, he estimated that the current version of the bill would raise about $545 million. The reduction is because of the higher standard deduction of the larger amount of untaxed income.

4:38:31 PM

MR. ALPER turned to slide 21 and said the way the tax would be structured is that while applying for a PFD, Alaskans would have the opportunity to apply their dividend towards their tax - a "pick, click, pay your tax." He clarified that that option wouldn't be available to non-residents.

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MR. ALPER progressed to slide 22 which laid out the numerous dividend proposals from the past several years. He observed that it has clearly been a hot legislative topic. He offered a brief history of Senate Bill 26, introduced Governor Walker in the 2017. Mr. Alper said Senate Bill 26 had a dividend very similar to what Representative Wool is proposing with HB 37. He noted that 40 percent of the POMV plus 20 percent of the direct oil royalties would have been $1,300. He stated that the Senate based the bill first with a 25 percent POMV, and then it went to the House where it passed with a 33 percent POMV. It wasn't until the end of the 2018 session that the conference committee substitute that did not include any technical provisions and did not resolve the dividend issue, and that is why to this day, there is still a tension in statute between the old dividend formula, which was intended to be over-ridden, and the current POMV language, which is now governing how much money is taken every year from the permanent fund.

4:41:57 PM

MR. ALPER brought attention to slide 23 and opined that a $2,500 dividend, as proposed by the governor, is a risky number. He stated that too many things could go wrong and make it unaffordable. Further, [the proposal] has not resolved where the rest of the money would originate. He argued that a $500 dividend, which is what the state can afford without taxes, as proposed by Senator von Imhof and Representative Merrick, is probably too low to be acceptable to most Alaskans. He went on to say that somewhere in the middle of that is likely the right answer. He offered his belief that a moderate tax bill, such as Representative Wool's, is the best way to resolve the entirety of the fiscal deficit. He explained that there is about $600 in new revenue between an income tax and the diversion of the royalties to the general fund, and a dividend payment of roughly the same dimension, he shared. It's codified in statute and gets rid of the tension and uncertainty resolving what the dividend is going to be; additionally, it balances the budget for the foreseeable future with any oil price greater than roughly $50 per barrel. He reiterated that it would take the dividend off the table and enable Alaska to be a stable state.

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CHAIR CLAMAN invited questions from the committee.

4:44:11 PM

REPRESENTATIVE KURKA stated that income taxes could be difficult to enforce and collect. He asked if the tax would be collected by DOR, how many tax collectors would need to be hired, and how much it would cost.

4:44:38 PM

MR. ALPER directed attention to the fiscal note. He said it was envisioned that the Tax Division, which currently administers 25 different taxes throughout the state, would take on the role of the income tax. He acknowledged that there is a large fiscal note, adding that about 65 new employees would cost between $8-$10 million per year. Additionally, he pointed out that somewhere between 1.5 to 2 percent of the revenue raised would be administrative charges. He said there is also a front-end cost of about $20 million to build the software, forms, outreach, and to get the system set up in the beginning.

4:45:44 PM

MIKE BARNHILL, Deputy Commissioner, Department of Revenue, said he didn't have anything to add to Mr. Alper's summary. He acknowledged that there was an interesting "inner-tie" between administering an income tax on top of a PFD tax base, which is something that DOR had begun to explore in connection with the progress of [HB 37.]

4:46:24 PM

REPRESENTATIVE KURKA asked for verification that with this plan, the PFD calculation amount would be based on a statute, which would still be at the whim of the legislature to fund; however, the income tax would not be at the whim of the people to pay. He asked what would "force" the legislature to fund the new PFD formula.

4:47:51 PM

REPRESENTATIVE WOOL acknowledged that everyone should follow laws. He agreed that the legislature has not followed the statutory formula for the PFD, but noted that it is subject to appropriation, as determined by the Alaska Supreme Court. Therefore, he posited that the legislature is technically following the law. He reiterated that the PFD formula is unsustainable and must be changed so that the legislature can follow it. He stated his belief that everyone wants to [follow the statutes when paying the PFD], and that legislators on both sides of the aisle have looked for an option, which this proposal offers.

4:48:57 PM

REPRESENTATIVE KURKA said he is confused by the sentiment that the current formula for the PFD is unsustainable. He observed that two statutes were mentioned earlier, Senate Bill 26 and the traditional PFD formula, which seem to be in conflict. He opined that if he were to put them "in concert," he would pay out the full PFD. He opined that currently, instead of government programs getting "the short end of the stick," the people are. He sought to clarify whether the PFD or government spending is unsustainable.

4:50:19 PM

REPRESENTATIVE WOOL said a budget of $4 billion in addition to a $2 billion PFD and revenue at less than $4 billion is unsustainable. He explained that [the legislature] could pay a $2 billion PFD if $2 billion were cut from the budget; however, he maintained that by cutting $2 billion from the budget, every state employee would have to be fired and the budget would still come up short. He said that is not feasible, realistic, or what anyone wants, which is why the PFD was adjusted downwards by Governor Walker and successive legislatures. He recalled passing Senate Bill 26, which changed the state's revenue portfolio; however, he said [the legislature] didn't fix the other half of the problem. He acknowledged Representative Kurka's perspective but reiterated his belief that paying out $2 billion or more in PFD checks when [the state] is bringing in $1.2 to 1.5 billion in oil and $3 billion in POMV draw is unsustainable.

4:53:09 PM

REPRESENTATIVE EASTMAN recalled an earlier statement that this proposal would not result in hardworking Alaskans leaving the state. He questioned whether that statement was based on data.

4:53:32 PM

REPRESENTATIVE WOOL said that statement was largely based on relative levels of taxation in other states, of which Alaska is the lowest. He pointed out that even if Alaska implemented a low income tax, Alaska would be "pushed into number two." Furthermore, he considered the fact that Alaska is giving out money to people. He said if that counteracted the tax, the Alaska would be back to "the lowest." He reiterated that there is no other place with lower taxes than Alaska. He suggested that other quality of life issues, such as employment, cost of living, and climate come into play more than taxation. He maintained that Alaska's taxation is so low that it shouldn't deter people from moving to Alaska.

4:54:41 PM

REPRESENTATIVE EASTMAN opined that imposing an income tax would be a deterrent to some people choosing to move to Alaska. He suggested that [the bill sponsor] provide related modeling on Alaska and other states.

4:55:33 PM

REPRESENTATIVE WOOL said he would take that suggestion under advisement.

4:55:41 PM

CHAIR CLAMAN sought clarification on the 30 percent royalty and where it would originate.

4:56:11 PM

MR. ALPER offered an example in which an oil producer was producing oil on state land and wrote the state a royalties check for $1,000. He said $250 or $500 of that would be designated to the permanent fund corpus. He noted that this depends on the age of the lease. The rest of that revenue is currently UGF revenue, he explained. The 30 percent royalty that would go towards the dividend, as envisioned in this bill, would come out of the UGF portion of the revenue, he answered, further noting that it would not change the deposit.

4:57:05 PM

CHAIR CLAMAN asked whether this proposal would require a constitutional amendment.

4:57:25 PM

MR. ALPER said the proposal should not require a constitutional amendment. He expressed his belief that Senator von Imhof's bill is complicated and would likely require implementing legislation to clean up the existing language that speaks to the permanent fund deposits and dividend payments.

4:57:54 PM

CHAIR CLAMAN suggested proposing part of this structure as a constitutional amendment, such that the 30 percent royalty and 10 percent POMV would be constitutionalized.

4:58:15 PM

REPRESENTATIVE WOOL said he is hesitant to constitutionalize monetary formulas and would rather do it statutorily.

4:59:11 PM

CHAIR CLAMAN announced that CSHJR 7(STA) was held over.

4:59:50 PM

ADJOURNMENT

There being no further business before the committee, the House Judiciary Standing Committee meeting was adjourned at 5:00 p.m.